

DRAFT RECLAMATION MANUAL RELEASE
Comments on this draft release must be submitted to
kstock@do.usbr.gov by November 7, 2008.

Background and Purpose of the Following Policy

In response to recommendations by Managing for Excellence (M4E) Team 6 regarding policy needs, as well as significant interest expressed during M4E stakeholder meetings during 2006, the Reclamation Leadership Team directed that development of a Reclamation Manual (RM) Policy on the allocation of operation and maintenance costs be included as one of the six priority areas for expediting policy development during 2007/2008 in conjunction with M4E Action Item 7.

This draft RM release is the result of research regarding the authorization and justification behind the Bureau of Reclamation's historical policies and present practices for allocating Operation, Maintenance and Replacement (OM&R) costs, as well as numerous discussions with Reclamation's economists, finance specialists, and water resource managers in the regional offices and in Denver. These discussions and those which occurred during the M4E stakeholder meetings highlighted a need to establish a greater measure of consistency in the methods used across Reclamation to allocate project OM&R costs in a way that reflects the agency's budget realities, is consistent with statutory provisions, and establishes a greater measure of transparency in the way we recover these costs from our customers.

Below are a few highlights of the draft release:

- The Policy would apply prospectively to all future changes in the allocation of project OM&R costs not specifically addressed in law or contract. The Policy does not direct changes to existing OM&R allocations.
- For future changes to OM&R allocations made under the Policy, costs would be allocated only to those purposes to which we are authorized to allocate construction costs.
- Where significant allocations are made to the non-reimbursable purposes of flood control, recreation, and fish and wildlife enhancement, maintaining the benefits upon which the allocation to these purposes is based will given due consideration in operating the reservoir.
- Where proposed changes to a project OM&R allocation represent an increase of more than 10 percent in the aggregate amount of joint OM&R costs allocated to non-reimbursable purposes, the proposed modification will be submitted for review and approval by the Commissioner.

The RM is used to clarify program responsibility and authority and to document Reclamation-wide methods of doing business. All requirements in the RM are mandatory.

See the following pages for the draft Policy.

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Subject: Allocation of Operation, Maintenance and Replacement Costs

Purpose: Establish a consistent and legally sound methodology for the allocation of Operation, Maintenance, and Replacement (OM&R) costs on Bureau of Reclamation projects. This Policy will benefit Reclamation and its customers by helping to ensure that all authorized project purposes share equitably in the benefits of multi-purpose projects, and establishing a greater level of consistency in the allocation of OM&R costs throughout Reclamation.

Authority: Reclamation Project Act of 1939 - Section 9 (Pub. L. 76-260; 43 USC 485h; 53 Stat.1193), Fish and Wildlife Coordination Act of 1946 (Pub. L. 79-732; 16 USC 661-666; 60 Stat.1080), Federal Water Project Recreation Act of 1965 (Pub. L. 89-72; 16 USC 460l-12, et seq.; 79 Stat.213), Reclamation Reform Act of 1982 (Pub. L. 97-293; 43 USC 390; 96 Stat.293), all as amended and supplemented; Economic and Environmental Principles and Guidelines for Water and Related Land Resources Implementation Studies (P&Gs).

Approving Official: Commissioner

Contact: Director, Policy and Program Services, 84-50000

1. **Introduction.** Reclamation law requires the allocation of project costs, including OM&R costs, to the various project purposes as identified in project authorizing legislation. This Policy sets the parameters within which Reclamation will establish allocations of OM&R costs. For direction on the allocation of project construction costs, see Reclamation Manual Directive and Standard *Project Cost Allocations*, PEC 02-01.
2. **Applicability.** This Policy will apply to all future changes in the allocation of project OM&R costs¹ on both reserved and transferred Reclamation project facilities

¹Costs are incurred in connection with various activities performed in support of project operations. Some of these costs are charged to the project and some are not. Costs charged to the project are allocated to project purposes, both reimbursable and non-reimbursable. Project costs allocated to reimbursable purposes are repaid by project beneficiaries, such as irrigation, M&I, and commercial power. Project costs allocated to non-reimbursable purposes, such as flood control and recreation joint costs, are not paid for by beneficiaries, but rather are covered by Federal appropriations. Costs not charged to a project are also non-reimbursable and thus covered by Federal appropriations. Reclamation Manual releases ENV P04 and FAC 01-04, among others, address the issue of what types of costs are charged to the project and what types are

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where such allocation is not otherwise specifically addressed in law or in a contract executed prior to the release of this Policy.²

3. Definitions.

- A. **Joint Costs.** Those project OM&R costs associated with facilities which serve multiple purposes and cannot be readily or logically assigned to a particular purpose from an operational perspective, e.g., normal reservoir operations, concrete repairs to a spillway, security guards and patrols, etc. These also include costs of compliance with the Endangered Species Act of 1973 as amended, and other requirements necessary for delivering water, as they are considered a “cost of doing business” properly allocable to all project purposes.³
- B. **Separable Costs.** Those project OM&R costs incurred specifically in performing operations in support of a particular purpose. They include the costs of operating single-purpose facilities, as well as those OM&R costs of multi-purpose facilities which could clearly be avoided if the facility were not operated for a particular purpose, e.g., costs specifically associated with making flood control releases.
- C. **Multi-purpose Facilities.** Those project facilities which serve more than one purpose, e.g., a dam, a control building, etc.
- D. **Single-Purpose Facilities.** Those project facilities which serve only one purpose, e.g., a boat ramp or an irrigation canal.

4. Responsibilities.

- A. **Commissioner.** Responsible for approval of changes to OM&R allocations subject to the requirements set forth in Paragraph 9.C.
- B. **Director, Policy and Program Services.** Responsible for technical review and recommendations to the Commissioner for OM&R allocations subject to the

not. In contrast, this Policy only addresses the allocation among the project purposes of those OM&R costs that are determined to be chargeable to the project.

²Where shifts in usage between irrigation and M&I users and the resulting shifts in repayment responsibility for the OM&R costs allocated to water supply are specifically provided for in an existing allocation procedure, such shifts are not considered a change in the allocation subject to this policy.

³It should be noted that not all Endangered Species Act compliance costs are chargeable to the project, as discussed in ENV P04.

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requirements in Paragraph 9.C., and for the provision of additional guidance as necessary in accordance with Paragraph 11.

- C. **Regional Directors.** Responsible for initiating changes to OM&R allocations in accordance with Paragraph 9, and for documentation of resulting decisions.
5. **Allocation of Separable Costs.** Separable OM&R costs associated with particular project purposes, such as Irrigation, Municipal and Industrial (M&I), Power, Flood Control, Recreation, and Fish and Wildlife Enhancement (F&W) will be allocated directly to those purposes on all Reclamation projects where such costs can be appropriately and clearly identified⁴. All separable costs assigned to Irrigation, M&I, and Power will be fully reimbursable and returnable by the appropriate beneficiaries. All separable OM&R costs assigned to Flood Control will be non-reimbursable. In accordance with the Federal Water Project Recreation Act of 1965, as amended, no less than 50 percent of the separable OM&R costs allocated to Recreation and F&W are reimbursable, i.e., the non-Federal partners operating the associated single-purpose Recreation or F&W facilities must bear at least 50 percent of these costs.
6. **Allocation of Joint Costs.** Joint OM&R costs may be allocated to Irrigation, M&I, Power, Flood Control, Recreation, F&W, and other purposes **only** on those projects or facilities where Reclamation is specifically authorized to allocate a portion of the construction costs to those respective purposes, or where minimum storage pools or operational requirements specifically serving those purposes have been established in project-specific legislation. The Federal Water Project Recreation Act of 1965, as amended, does not provide “blanket” authorization for allocating joint costs to Recreation. The Flood Control Act of 1944 does not provide “blanket” authorization for allocating joint costs to Flood Control.
7. **Basis for Allocation of Joint Costs.** Joint OM&R costs will be allocated on the basis of the current net proportional economic benefits of the authorized project purposes. Joint costs allocated to Irrigation, M&I, and Power will be fully reimbursable by the appropriate beneficiaries⁵. All joint OM&R costs allocated to Flood Control, Recreation, and F&W in accordance with this Policy will be non-reimbursable.

⁴The proper identification of separable project OM&R costs will often require, at least initially, the judgment of facility operators in determining the amount of costs incurred in particular operations that support a given purpose, and it is the intent of this Policy to allow the exercise of discretion in making that determination, subject to the Definitions given herein.

⁵Section 513(b) of Pub. L. 110-229 limits the total amount of security-related OM&R costs which may be assigned as reimbursable OM&R costs to the project beneficiaries, and this requirement must be met in establishing the allocation of joint costs as set forth in this paragraph.

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8. **Operational Considerations.** Where substantial amounts of joint OM&R costs are allocated to Recreation, Flood Control, and F&W, the maintenance of the associated benefits on which the allocation is based will be duly considered in operating the multi-purpose project facilities.
9. **Initiation of Changes to Present OM&R Allocations.**
 - A. Studies to analyze current benefits for the purpose of modifying the allocation of joint OM&R costs may only be undertaken upon:
 - (1) a determination by the Regional Director that the study is warranted and that the entity or entities responsible for repayment of the reimbursable joint OM&R costs have been given ample opportunities for consultation and collaboration in the decision to perform the study; and
 - (2) payment in advance by the appropriate entity or entities of Reclamation's estimated costs of conducting the benefits study. The payment responsibility will be in accordance with the allocation in effect at the time of the decision to conduct the study.
 - B. Modifications to current OM&R allocations will be implemented only upon:
 - (1) completion of a current benefits study conducted at no less than an appraisal level and no more than 5 years prior to the proposed modification;
 - (2) a decision memorandum signed by the Regional Director⁶ detailing the manner in which the OM&R allocation will be modified, the basis for the modification, and the extent to which the entity or entities responsible for payment of the reimbursable OM&R costs have been given opportunities to collaborate with Reclamation in the development of the study and the proposed modification to the cost allocation; and
 - (3) notification of the entity or entities responsible for payment of the reimbursable OM&R costs of the intent to adopt the proposed modification as described in the decision memorandum.

⁶Changes to project use power rates require the approval of the Secretary of the Interior. Should the change in the allocation of project OM&R costs be deemed to necessitate a change to the project use power rate for the project in question, approval of the resulting change in rate will need to be obtained prior to adoption of the modification to the OM&R cost allocation. For specific requirements regarding project use power rates, see Directive and Standard FAC 04-06, Project Use Power.

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- C. Where the proposed modification represents an increase of more than 10 percent in the aggregate amount of joint OM&R costs allocated to non-reimbursable purposes, the proposed modification will be submitted via the Director, Policy and Program Services for review and approval by the Commissioner prior to execution of the decision memorandum by the Regional Director.
- 10. **Documentation.** A copy of the decision memorandum required by Paragraph 9.B.(2) will be forwarded to the Director, Policy and Program Services, upon execution.
- 11. **Additional Information.** Additional assistance and information regarding the conduct of benefits studies and cost allocations is available by contacting the Director, Policy and Program Services.